**Example- 3** (Conversion of Partly paid Shares)

XY Ltd. has a fully paid equity capital of Rs 5, 00,000 divided into shares of Rs 10 each and 1, 00,000 partly paid shares of Rs 10 each, Rs 7 paid up. It has an accumulated profit to the credit of its profit and loss account of Rs 2,00,000, free reserve of Rs 1,50,000 and security premium of Rs 50,000. It has decided to convert the partly paid equity shares into fully paid by applying bonus out of accumulated profit and free reserves. The bonus was declared at Rs 6 per share on the fully paid up capital. Pass necessary journal entries.

**Journal XY Ltd**

|  |  |  |
| --- | --- | --- |
| Profit and Loss Dr.  Reserve A/c Dr.  To Bonus to Shareholders A/c  (Declaration of bonus out of P&L and free reserves) | 2,00,000  1,00,000 | 3,00,000 |
| Share Final call A/c Dr.  To Equity share Capital A/c  (Final call made on 1,00,000 shares @ Rs 3 per share) | 3,00,000 | 3,00,000 |
| Bonus to shareholders A/c Dr.  To Share Final Call A/c  (Utilization of bonus) | 3,00,000 | 3,00,000 |

**Working Note:**

1. Amount of Bonus = 50,000 fully paid shares \* 6 per share = Rs 3,00,000
2. Amount required to convert 1,00,000 partly paid shares, Rs 7 paid up shares = 1,00,000\*3=3,00,000
3. The required amount is utilized out of profit of Rs 2, 00,000 and Rs 1, 00,000 out of free reserves. Security premium cannot be utilized for the purpose.